

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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The Waning Dollar . . .

The sharp drop in the foreign exchange value of the dollar in recent weeks has revived speculation, after many false starts, that this is the beginning of a sustained decline. After reaching a record high in mid-January (Financial Digest—January 30, 1984), the dollar fell by nearly seven percent on a trade-weighted basis in the ensuing eight weeks. The dollar's depreciation against the major currencies has been even more impressive. In the five weeks ending March 7, the German mark rose against the dollar by 8.9 percent, the French franc by 8.2 percent, the Italian lira by 6.6 percent and the British pound by 5.5 percent. In the first week of March alone, the Japanese yen jumped by 2.5 percent (see chart).

But there have been other periods of weakness since the dollar began its sharp climb in mid-1980. For example, the dollar fell by about nine percent in the latter half of 1981 and again by 7.5 percent at the end of 1982. However, these declines proved to be only short-lived interruptions in an otherwise steady rise. The dollar is still about 50 percent above its low point of mid-1980.

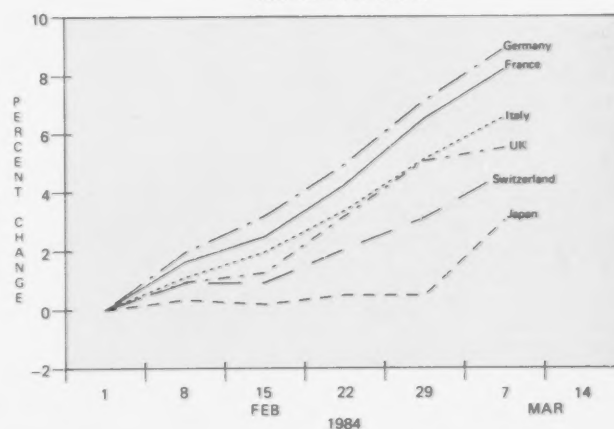
This time there is reason to believe that the dollar may be in for a more sustained downward move. For one thing, the huge trade and current account deficits experienced by the U.S. last year and the prospects for even greater deficits in our external accounts this year, along with record Federal budget deficits, have reduced confidence abroad in our economic policies. Another cause for concern is that with an election year in progress in the United States and with an impasse between the Administration and the Congress over fiscal policy, prospects for an improvement in our economic management are diminishing. Further, gradual recovery in Europe and elsewhere would appear to make domestic investments in those countries more attractive, reducing foreign demand for dollars.

. . . Will Have Widespread Effects . . .

If the U.S. is, indeed, entering a period of substantial weakness for the dollar, the global effects—good and bad—will be widespread. Among the often-cited benefits of a weaker dollar for the U.S. is a reduc-

tion in our trade deficit. U.S. exports would become more competitive abroad, creating jobs in the export sector. New jobs, in turn, create increased domestic demand, thus extending and broadening the ongoing U.S. recovery. Further, a weaker dollar might be expected to reduce the demand for imports as they become more expensive in dollar terms. This, too, would add to domestic demand as buyers turn to U.S. products for their needs.

VALUES IN U.S. DOLLARS OF MAJOR CURRENCIES
% CHANGE FROM FEBRUARY 1, 1984
(WEEKLY FIGURES)



These favorable effects on our trade account may not be all that strong. Other factors beyond the external value of the dollar play an essential and perhaps a decisive role in determining the levels of imports and exports. One important factor is the condition of the global economy. In two recent periods when the dollar weakened significantly, U.S. real exports and imports both increased sharply, making almost equal percentage gains. In both periods—between 1971 and 1973 (just before the first oil price rise) and between 1976 and 1980—global economic growth was well above average. This time, the dollar appears to be weakening in a period of low growth elsewhere—a factor likely to inhibit U.S. export gains while a strong recovery here still encourages imports.

Another important factor relates to the structure of



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exports. The price effects of a currency's depreciation are not uniform for all export industries. Many U.S. exports are complex products with a long period between order and delivery. Consequently, the effects of the dollar's decline may be lagged by as much as two years.

There are other possible trade effects resulting from a decline in the dollar's external value. Even though the dollar's decline will, in many cases, make our exports cheaper in foreign currency terms, some traditional markets for U.S. exports may not revive rapidly, this time around. U.S. exports to Latin America, which amounted to 17 percent of total U.S. exports in 1981, have fallen by almost 40

percent in value since that year, as a result of the external debt problems of some of those countries. U.S. exports to this market may not return to previous levels for some time—no matter how much the dollar falls.

... Both Here And Abroad

As strange as it may seem, the rest of the world may well realize more benefits from the depreciation of the dollar than the U.S. Not only will U.S. goods be cheaper in terms of the other countries' currencies, but prices of a wide range of internationally-traded goods—particularly petroleum—which are set in dollars, will also be lower. The non-oil developing countries, particularly those with high external debt

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/7/84	Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	157.764	+ 1.523	+14.520
Loans to Depository Inst.	.493	- .014	- .133
Float	.461	- 1.076	- 1.826
Total Reserve Bank Credit	167.087	+ .679	+12.251
Treasury Deposits with			
Federal Reserve Banks	3.557	- .858	- .152
Currency in Circulation	167.519	+ .575	+13.452
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	117.970	- 1.421	+ 3.836
Member Bank Reserves:	2/29/84		
Total Reserves Held	35.643	- 1.161	- 4.199
Excess (Deficiency)	.700	- .459	+ .166
Net Free Reserves	.318	- .187	+ .156
Monetary Aggregates †		% Change Since	
		Three Months Ago*	Year Ago
M1 (2/27/84)	533.3	\$	\$
M2 (January '84)	2,206.0	+ 7.2	+ 9.3
M3 (January '84)	2,720.8	+ 9.6	+ 9.3
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 3/9/84			
‡ U.S. Treasury Bills	8.90%	9.05%	9.18%
* Federal Agencies	9.30	9.95	10.00
* Project Notes—Taxfree (46% Taxable Equivalent)	9.26	9.72	10.74
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.05	10.30	10.95
‡ Finance Company Paper—Prime			
5- 14 days	9.60%	Apr.	9.83%
15- 29 days	9.60	May.	9.88
30- 59 days	9.63	Jun.	9.88
60- 89 days	9.63	Jul.	9.93
90-179 days	9.75	Aug.	9.93
180-239 days	9.75	Sep.	9.93
240-270 days	9.75		
‡ Industrial Paper—Prime			
30- 89 days	9.60%	† Federal Funds	
90-120 days	9.50	Effective Rate	9.70%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	\$ 3,362	\$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	\$ 1,553	\$ 1,481
Percent Change, Annual Rate	4th Q'83	4.9	7.6
Change in Consumer Prices (new series)*	Jan '84	7.2%	2.4%
Change in Producer Prices*	Jan '84	7.2%	1.2%
Civilian Employment (Thousands of Persons) †	Feb '84n	103,892	103,190
Unemployment as % of Civilian Labor Force †	Feb '84n	7.8%	8.0%
Personal Income*	Jan '84	\$ 2,889	\$ 2,858
Leading Indicators Composite Index (1967=100) †	Jan '84	164.7	162.9
Industrial Production Index (1967=100) †	Jan '84	158.1	156.4
Net Change in Consumer Installment Credit †	Dec '83	\$ 5.61	\$ 4.67
U.S. Merchandise Trade Balance †	Jan '84	-\$ 9.47	-\$ 6.74
Plant and Equipment Expenditures*	1st Q'84	\$323.07(a)	\$321.60(a)
Private Housing Starts (Thousands of Units)*	Jan '84	1,915	1,666
New Construction Expenditures*	Jan '84	\$ 281.8	\$ 277.8
Total Business Inventories †	Dec '83	\$ 520.0	\$ 518.1
Total Business Sales †	Dec '83	\$ 395.9	\$ 386.6

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n - Newly reported figure.

r - Revised.

a - Anticipated.

levels, will also benefit to the extent that those of their exports which are sold in other currencies will generate a greater number of dollars, assisting them in meeting their external debt obligations which are largely dollar-denominated.

Financial assets denominated in a weakening dollar will be less attractive to foreign investors, even if interest rates remain high, since the value of their investments will decline in their own currency's terms. This might encourage foreigners to invest in their own countries. What is more, a drop in the dollar's exchange rate will allow many foreign central banks to lower interest rates, thereby stimulating business activity and adding to economic

growth without depressing their own currencies' exchange value. Further, by reducing the domestic cost of many imports, a weaker dollar will contribute to the slowing of inflation abroad.

The big question, of course, is whether the dollar will weaken significantly, given likely interest rate trends here and abroad. Contrary to a possible falling interest rate trend overseas, interest rates in the U.S. are poised to rise because of increasing demands for funds by the public and private sectors against a fairly restrictive monetary policy. This suggests that the real interest rate gap may once more widen in favor of the U.S.—and it was this differential that caused the dollar to climb in the first place. **M**

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of \$100,000 or more			
Weekly Reporting Banks			
Nationwide (2/22/84)	140,970	+ 361	-21,037
New York City (2/29/84)	28,716	+ 355	-12,476
Commercial Paper (2/29/84)	191,006	+ 381	+23,345

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (2/22/84)	223,723	+ 1,319	NA*
New York City (2/29/84)	59,544	+ 1,538	NA*

Commercial and Industrial Loans

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (2/22/84)	581,265	+ 552	NA*
New York City (2/29/84)	132,995	+ 19	NA*

*Year ago data not available due to definitional changes.

Financial Markets

U.S. Governments, Closing Yields:

	Friday 3/9/84	Change Since	
		Week Ago	Year Ago
90-Day Billst	9.70%	+ .55	+ 1.19
180-Day Billst	10.10	+ .85	+ 1.39
Longest Billst	10.40	+ 1.10	+ 1.46

Recent Issues:

107/8s 2/28/86	11.15	+ .18	
111/4s 12/31/87	11.75	+ .20	
113/4s 11/15/93	12.25	+ .21	
12s 8/15/13	12.35	+ .20	

Municipals:

Bond Buyer—20 Bond Index* (3/8/84)	9.94%	+ .08	+ .72
Blue List Total (\$ Million)	\$1,336	- \$ 54	+ \$ 85
30-Day Visible Supply (\$ Million)	\$2,657	+ \$392	- \$1,475
Total	\$3,993	+ \$338	- \$1,390

Corporates:

Moody's Aa Composite (3/8/84)	13.14%	+ .15	+ .75
30-Day Visible Supply (\$ Million)	\$3,375	+ \$235	+ \$2,525

Stocks:

Dow-Jones Averages:

Industrials	1,139.76	- 31.72	+ 22.02
Transportation	498.46	- 22.12	- 4.88
Utilities	125.92	- 3.46	- 1.06
65 Stocks	447.55	- 14.39	+ 4.19
Standard and Poor's 500 Stocks	154.35	- 4.89	+ 3.11
N.Y.S.E. Composite Index	88.94	- 2.73	+ 1.65
N.Y.S.E. Avg. Daily Vol. for Week (000's)	79,504	-15,234	- 2,618

International Rates

	Friday 3/9/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.63%	9.63%
1 month	10.00	9.81
3 month	10.31	10.06
6 month	10.63	10.31
1 year	11.06	10.81

EURODOLLAR BONDS

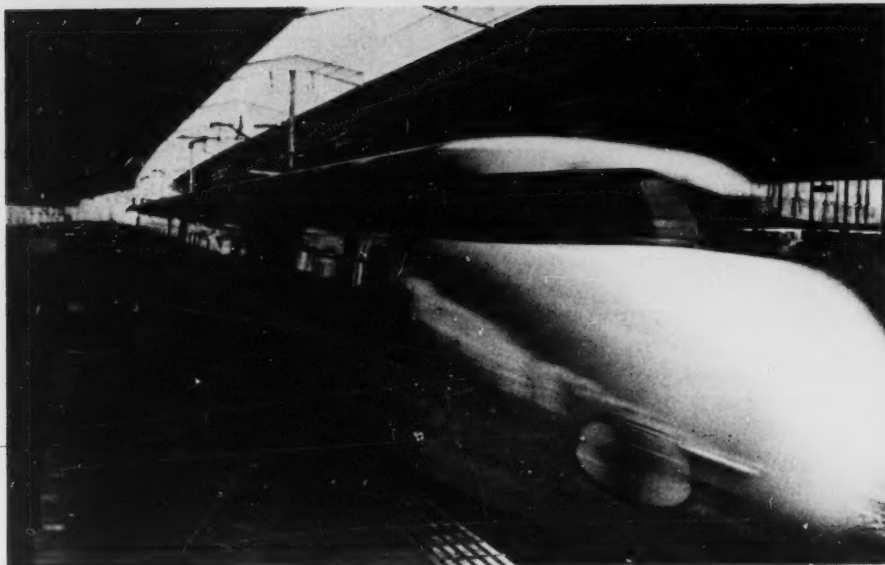
Average Yield		
Medium Term (5 to 7 yrs.)	12.00%	11.80%
Long Term (7 to 15 yrs.)	12.20	11.95

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/9/84)	U.S. \$ Equivalent	Currency Per U.S. \$
Belgium	.01899	52.67
Canada	.7891	1.2672
Denmark	.1065	9.3895
France	.1261	7.9330
Germany	.3885	2.5740
Italy	.0006248	1600.50
Japan	.004462	224.10
Mexico	.005865	170.50
Netherlands	.3444	2.9040
Switzerland	.4702	2.1267
U.K.	1.4620	.6840

* 46% Taxable equivalent 18.41%.

† Bond equivalent.



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